

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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**ADMINISTRATIVE RULE
FISCAL IMPACT STATEMENT**

PROPOSED RULE: 95-267

DATE PREPARED: Nov 21 95

STATE AGENCY: State Personnel Department

DATE RECEIVED: Oct 10 95

FISCAL ANALYST: Jim Sperlik

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Digest of Proposed Rule: This proposal adds 31 IAC 1-12.1 and 31 IAC 2-17.1 to provide for the conversion of accrued vacation leave, for the purpose of paying health insurance premiums for early retirees and their spouses. The proposed rule would allow retirees under the age of 65 to use accumulated vacation days over the 30 days currently being paid for health insurance coverage. This rule is effective January 1, 1996. IC 4-15-1.8-7; and IC 5-10-8-8 are the affected Code cites.

Governmental Entities: State Personnel Department; State Agencies

According to the November 20, 1995 Manning Table, there are 859 employees who would be immediately eligible to participate in this proposal. If everyone used the accumulated vacation days over 30 to purchase coverage up to age 65, coverage would last on average 2.5 years for single coverage and 3/4 of a year for family coverage. If the state allowed the employee the option of using the first 30 days of accumulated leave for health insurance instead of being paid for those days, the coverage would last about 4 years for single coverage and 1.5 years for family coverage. The estimated cost for this is below:

	Single Coverage		# Eligible	Family Coverage
Year 1	\$4,329,360	859		\$4,978,764
Year 2	574,560	114		660,744
Year 3	750,960	149		863,604
Year 4	876,960	174		1,008,504
Year 5	1,098,720	218		1,263,528

The above is based on an annual premium of \$2,016 for single coverage and \$ 5,796 for family coverage. These rates will be effective January 1, 1996.

Not everyone will retire as soon as possible. According to the probability retirement table of the Teachers' Retirement Fund, it is estimated that the following will be the cost to the state:

	Single Coverage	Family Coverage
Year 1	\$636,597	\$751,621
Year 2	676,838	928,318
Year 3	984,457	1,347,628
Year 4	1,276,000	1,645,663
Year 5	1,359,156	1,746,798

The funds affected are the state general fund approximately 55% and various dedicated funds about 45%.

There are no unfunded mandates placed upon state government or local subdivisions.

Further, this analysis does not take into consideration any potential cost savings that may occur if salaries are reduced as a result of a higher incidence of retirement. If retiring participants are not replaced with new employees, then the liberalized retirement provision would take on the appearance of an "early retirement window" with potential cost savings from reduced salaries. It should be noted that the true savings associated with early retirement window programs arise not from the termination of the employees, but rather with the effectiveness with which an administration reorganizes and replaces these employees. The true savings relate to the long-term effectiveness of management and, with any organization, the long term-savings become a matter of speculation.

Regulated Entities The regulated entities are the state employees (retirees) who would be eligible and who would participate in this program and presumably benefit from the provision of health insurance provided through the conversion of accrued vacation leave.

Information Sources: Budget Agency, Chuck Mayfield 232-5611; State Department of Personnel, Bob Flood 232-8048.